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**Massachusetts Department of Revenue** Division of Local Services

Mitchell Adams, Commissioner Leslie A. Kirwan, Deputy Commissioner



# *A Guide to Financial Management for Town Officials*

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*The Guide to Financial Management for Town Officials* is dedicated to the life, work and memory of Gale Ann Marceau, Regional Director of the Division of Local Services Worcester and Springfield offices from 1988–1994. Gale served Massachusetts communities in a distinguished public career as a local, county and state official. She demonstrated a love for and commitment to the communities she served and worked hard to promote the team management concept embodied in this Guide.

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# *A Guide to Financial Management for Town Officials*

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# *A Guide to Financial Management for Town Officials*

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## INTRODUCTION

The purpose of this Guide is to provide a resource for local officials that will help them gain a general understanding of local government finance. This Guide should be particularly useful to newly elected or appointed officials, especially those that serve on a part-time basis in towns. It explains the major aspects of municipal finance, and also provides a broad overview of the responsibilities of the major participants in a town's financial management. It is important that new officials, especially policy-makers, appreciate the varied roles of the participants in municipal finance. With a good grasp of the workings of town financial functions, local officials will be in a better position to make informed policy decisions.

Since a document like this cannot address every aspect of local finance, we have also included numerous references to other publications that will assist even the seasoned official in gaining a more in-depth understanding of selected topics.

## COMPLEXITY OF LOCAL GOVERNMENT

Learning the various aspects of local government finance can be a challenge for a new municipal official. New and experienced town officials alike can feel intimidated, confused or overwhelmed by the range and complexity of the issues before them. In addition, local government officials must be aware of a large number of issues and opportunities in conducting their business, from Proposition 2½, which restricts increases in local tax levies, to the Education Reform Act of 1993, which establishes local education spending requirements.

The way communities manage within the context of these laws and regulations can have significant impact on their financial

well-being. For example, many municipalities and districts face difficult environmental and public health issues such as capping of municipal landfills, building waste-water treatment facilities or making improvements to water and sewer systems. Frequently the manner in which a community copes with these issues can have repercussions on the community's future financial health. In some cases, state or federal aid may be withheld or fines levied against communities that fail to comply with state and federal laws. In other situations grants, private funding and other community resources are available to public officials who are knowledgeable about their availability.

## CONSTANT COMPETITION FOR MUNICIPAL BUDGET DOLLARS

In most communities there are constant demands for new or expanded services. In some cases these demands arise because state and federal laws mandate spending in certain areas — education, recycling, handicap accessible buildings, or sewer treatment facilities, for example. In other communities demographic changes fuel demands by residents for new or improved services. For example, U.S. Census data shows that the population groups of ages 0–4 years and 75+ years were the fastest growing populations in Massachusetts between 1980 and 1990, with growth of 22.3 percent and 18.3 percent, respectively. With these population groups demanding a significant share of municipal services, the competition for municipal budget dollars is likely to continue.

As the demand for services has grown, so have municipal operating budgets. In fact, even the smallest Massachusetts local governments now have million dollar annual budgets. State-wide, spending by local governments has increased from \$5.68 billion in

- *Introduction*
- *Complexity of Local Government*
- *Constant Competition for Municipal Budget Dollars*
- *Government by the People*
- *Need for a Team Management Approach*

FY81 to \$10.39 billion in FY94, an increase of 82.9 percent. When measured against the rate of inflation (70.8 percent) over this same period, however, the increase in real spending averaged only about 1 percent per year. In other words, local governments have been called upon to provide an ever expanding range of services without a significant increase in real revenue. However, it should be noted that education, which is the single largest expenditure for most municipalities, receives substantial funding assistance from the state.

#### GOVERNMENT BY THE PEOPLE

Local government in Massachusetts has always been based on strong citizen participation. Often as communities grow and introduce new services, one or more residents is elected or appointed to oversee each new service. Many of these officials serve their town on a part-time or volunteer basis. As a result, municipal government in Massachusetts has traditionally been decentralized, with separate officials or committees responsible for various aspects of town government.

#### NEED FOR A TEAM

##### MANAGEMENT APPROACH

Most of the issues facing local governments today transcend the traditional boundaries and responsibilities of any one department or board. For example, issues such as managing growth or protecting the local environment can be addressed only through the coordinated effort of several different parts of town government. Similarly, good financial management requires coordinating the expertise and individual efforts of numerous town boards, committees and officials.

The changing nature of local government services and the increasing complexity of service delivery require that the various town officials, boards and committees work together more closely than ever before. This includes the sharing of information and resources so joint solutions can be developed and implemented successfully. It means that each municipality needs to operate as a unit rather than as a collection of sub-units. The need for cooperation and coordination among the various players in town government is a recurring theme throughout this Guide.

# Major Elements of Municipal Finance

1

## 1.1 WHAT ARE THE IMPORTANT ELEMENTS OF MUNICIPAL FINANCE?

The term “municipal finance” incorporates a number of fiscal components, also called systems, that exist within a town government. These systems exist to determine how local funds are to be spent, to ensure that the funds are spent legally and in a manner consistent with the original intent, and to control the collection of revenues that pay for the services.

The principal components described below exist in one fashion or another in virtually every town in the Commonwealth. Some municipalities have more clearly defined and sophisticated systems, while in others they may be barely evident. The level and sophistication of the fiscal components need not be tied to the size of the community. It is important for each town to be able to define and develop financial systems appropriate to its own needs.

### BUDGET PROCESS

The most common and recognizable financial system is the budget process. The municipal budget is the means by which local officials and town meeting decide how and where available municipal funds shall be spent.

In the most basic budget systems, forms requesting funds are completed annually by department heads and transmitted for review to the finance committee and sometimes to the selectmen as well. The finance committee must then report to the town meeting the committee’s recommended sums of money for each department’s appropriation. An appropriation is the town’s legally allocated sum of money for a given

department, or for the municipality as a whole. Appropriations are determined annually for the following fiscal year, which is the twelve month period for which revenues are collected and spent for public purposes. In Massachusetts, the fiscal year runs from July 1 through the following June 30. Town meeting must vote to approve all appropriations for the upcoming fiscal year in advance of setting a tax rate. This collection of appropriations is referred to as the budget.

The budget process, however, is not simply the list of appropriations for a particular fiscal year. It is the entire set of steps by which the final product, the budget document, is created and managed.

A good budget process includes six well defined steps. The first is the planning step. As part of this step, communities should clearly define the time-frame within which each subsequent step should be completed. A written calendar or time-line distributed to all players involved will inform them of when their responsibilities are expected to be fulfilled.

A key element of the planning stage is developing revenue and expenditure estimates for the coming year so that local officials understand the financial parameters within which they must operate. It should be noted that large portions of a town’s budget are earmarked for fixed costs. The revenue estimates should be developed by the town’s financial officers and based on the following: actual revenue collections of the prior year; projections of current year’s revenues based on year-to-date collections; and any known or proposed changes (e.g., rate or fee increases, overrides or debt exclusions) that could affect revenues in the coming fiscal year. On the expenditure side, estimates of fixed costs should also be prepared. These should include such items as debt service,

- *What are the important elements of municipal finance?*
- *What are the major revenue sources and major expenditures for local governments?*

*Town officials can get help determining the adequacy of their community’s current financial management by calling the Division of Local Services Municipal Data Management/Technical Assistance Bureau (MDM/TAB).*

***DOR has developed Revenue and Expenditure Forecasting software that will assist local officials in developing multi-year forecasts of all operating revenues and expenditures that appear on a community's Tax Recapitulation Sheet. The software allows local officials to easily analyze the impact of various financial scenarios.***

insurance, contractual agreements and prior year deficits that must be raised (e.g., snow and ice, revenue and overlay deficits). The combined revenue and fixed cost estimates will give an indication of the amounts of discretionary funding available to finance operating budgets in the coming year.

Based on the amount available for operations, the selectmen and finance committee should jointly develop budgetary guidelines for departmental requests. This is the second step in the process. These guidelines should provide parameters to department heads that will help them prepare budgets that are compatible with the town's financial goals. For example, such guidelines could state that budget requests are to be level funded (or increased or decreased by a certain amount or percentage) unless the department head can demonstrate that additional expenditures will ultimately reduce costs, enhance revenues or otherwise further the financial goals of the community.

Once guidelines have been established, the third step in the budget process is to distribute forms to the department heads so they can prepare their budget requests. A good budget request form will include space for narrative descriptions of specific projects covered under a budget request, as well as a description of how the spending plan relates to the overall goals and objectives of the town. A budget request should show a budget history including actual expenditures from the prior years, year-to-date and estimated year-end expenditures in the current year, and the departmental request for the ensuing year. It should also provide an estimate of any revenues that may be generated, as well as explicit justification for any new personnel or equipment. Presenting this information in a common format will provide reviewers with a meaningful starting point for budget analysis.

The fourth step in a good budget process is the review stage. Here the budget requests are reviewed against the town's pre-established departmental guidelines. Budget requests are always reviewed by the finance committee, and should also be reviewed by

the board of selectmen and the board's professional administrator if there is one. As part of this step, department heads, boards or commissioners should be given an opportunity to explain their budget requests in hearings with the finance committee, selectmen or administrator.

Once reviewed, the fifth step in the process is for the finance committee to present the budget to town meeting. Town meeting, as the legislative body of a town, votes on the budget and has the final say on the level of departmental spending. After the budget is approved, the sixth and final step is to monitor the budget throughout the year. This involves reviewing expenditures to make sure they are consistent with the vote of the town meeting, making sure budgets are not overspent and monitoring receipts collected to date. Monitoring actual performance against the original budget can reveal problems early and give a town time to take corrective action and avoid potential deficits.

The diagram (Figure 1) below depicts the budget process described in the above paragraphs.

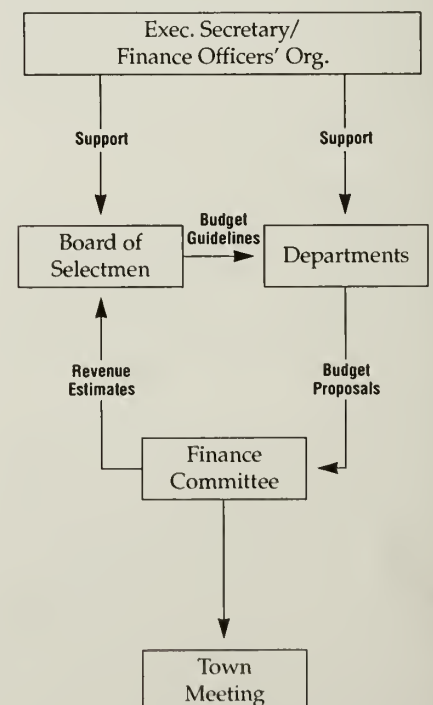


Figure 1

A good budget process is continuous. One cycle overlaps with the next cycle, year after year. The process starts in the early fall for the following fiscal year (e.g., September for the following fiscal year) with the planning step and the establishment of guidelines. Forms are often distributed to department heads in October or November and are returned to the finance committee, selectmen or administrator in November or December. The budgets are then reviewed in January and February, with final recommendations made in March or April for a spring town meeting.

A good budget process is not simply a mathematical task; it is the major policy-making tool for the town. The budget should clearly identify the service priorities for the town. It should explain not only how much money is to be spent for each service, but how that money will be used and how it will meet the goals and objectives of each department. Most importantly, such explanations should be provided in a way that makes sense to the average voter. The budget process is the foundation on which all the other elements of municipal finance are built.

### CAPITAL PLANNING

The budget process just described is for operating expenditures for each fiscal year. However, every town must face some major costs that have a multi-year impact on the finances of the town. A capital item is usually something that has a high acquisition cost but also has an economic life of several years. Buildings, fire engines and dump trucks are common examples of capital items. Because of their expense and longer life, towns should plan carefully and schedule such acquisitions. A capital improvement program is a methodical process by which all the capital needs of the town are identified, prioritized and scheduled for acquisition. Obviously the schedule must consider the ability of the town to afford such items. Most capital improvement programs plan for five or six years into the future and schedule the acquisition of capi-

tal items sequentially in order to be least disruptive to any given annual budget. The greatest value of capital planning is that it helps towns plan for their largest acquisitions in a sensible and prudent manner that considers all of the town's capital needs, annual appropriations and debt service.

### DEBT MANAGEMENT

Debt management is the element of municipal finance that deals with the town's need and ability to borrow money. In municipal finance there is long-term and short-term debt. Long-term debt is used for the acquisition of major pieces of capital equipment and facilities (e.g. dump trucks, fire engines, schools).

Towns must sometimes acquire a facility or piece of equipment that is so expensive it is preferable or necessary to pay for it over several years. Towns wishing to borrow money for extended periods of time issue bonds to investors. The bonds are repaid over time with interest. State laws regulate what sort of goods and services towns may borrow for, and how long such loans may last. (See M.G.L. Ch. 44, Secs. 7 & 8.) Towns that borrow long-term must plan such indebtedness so they do not overextend themselves, yet can still provide needed capital items. Communities facing fiscal constraints may raise funds for certain capital purposes above the amount of their levy limit or levy ceiling through a debt or capital outlay expenditure exclusion. (See Section 2.2 of this Guide for detailed discussion on levies, Proposition 2½ and long term debt.)

Long-term debt is usually sold with the assistance of bond counsel and a financial advisor. It involves the preparation of a disclosure document, an application for a credit rating and, usually, a formal sealed competitive bidding process. However, for smaller amounts a town may also explore selling State House serial notes, which involves issuing debt certified by DOR's Bureau of Accounts rather than a bank. State House notes are usually easier to issue than long-term bonds and typically have lower issuance costs.

***DOR has written a handbook entitled Developing a Capital Improvement Program. The handbook describes the steps necessary for a good capital planning process and provides sample forms.***

***For more information on State House notes, call the Debt Management Section of DOR's Division of Local Services.***

*Valuable data are available from the DLS Municipal Data Bank in both electronic format and hard copy.*

The key to good debt management is to carefully identify the town's capital needs and establish a prudent financing plan that repays the loans over the useful life of the item. In order to do this successfully, many towns have created capital improvement plans that span five or six years at a time. Like budgets, capital improvement plans must be updated continually.

Short-term debt is usually issued for a period of less than one year, often in anticipation of a particular revenue source for the town. The most common form of short-term debt is tax anticipation notes or TANs. For example, since property tax collections are not received at the beginning of the fiscal year, some towns borrow money in anticipation of collecting property taxes. Other types of short-term debt relate to funds borrowed prior to the issuance of long-term debt (bond anticipation notes or BANs) or the receipt of a state or federal grant (grant anticipation notes or GANs). The borrowing provides funds to begin a project and is repaid when the long-term debt is issued or when grant funds are received. State House notes are often used for short-term borrowing.

Short-term debt can be managed by ensuring that the monies borrowed do not exceed the revenue source used as repayment. Short-term debt is best managed with the establishment of cash management practices such as a cash-flow budget, in which the expected revenue and expenditure flow of the town is divided up on a monthly basis so that cash surpluses and deficits can be clearly identified. In addition, towns that issue tax bills on a quarterly basis tend to see a reduction in TAN borrowing and associated interest costs.

#### TREASURY OPERATIONS

Treasury operations involve the procedures by which money is collected, deposited into a bank, invested while held by the town and disbursed to fund the operations of town government. It is important that prudent procedures exist for each of these actions involving movement of the taxpayers' money.

As is the case with all significant service contracts, banking services should be acquired through a competitive procurement process. Some towns pay banks for their services through fees charged by the bank. Other towns pay no fees but leave a certain balance of funds in a non-interest bearing account, letting the foregone interest income act as compensation to the bank. This latter form of payment is called a compensating balance. It is important for the town to estimate the cost of a compensating balance to ensure that the interest income lost is roughly equivalent to the fees that would otherwise be levied by the bank. A compensating balance law exists that requires treasurers who enter into these agreements to submit the details to DOR.

Since money has a time-related value, towns must manage their cash as efficiently as possible. The goals of cash management are to collect money due to the town as quickly as possible, and to deposit and invest it as soon as possible in an instrument that is safe and produces maximum return. Disbursements should not be made any earlier than necessary so interest income can be maximized.

#### FINANCIAL REPORTING

Timely financial reports are a valuable tool for monitoring the finances of a municipality. They provide information that shows how the community's funds were collected and expended, and allow the community to compare actual financial performance with the intentions and expectations of the government's budget as originally voted.

A good accounting system is the basis for meaningful financial reports. The basic accounting system consists of a general ledger, general journal and detailed subsidiary ledgers for revenues and expenditures. It is very important that these records be maintained and kept up to date, because it is from these records that appropriations and revenues are monitored and various financial reports prepared. Some financial reports that are of interest to public officials include a balance sheet, Schedule A and audited financial statements.

A balance sheet is the report that shows a community's financial position at the end of the fiscal year. It summarizes account balances of assets, liabilities, and fund equity and is used by DOR in calculating a community's free cash. (See Section 2.3 of this Guide for more information about free cash.)

The Schedule A is a statement of revenues, expenditures, fund balances and other financing sources and uses. This report, prepared at the end of the year for the recently past fiscal year, is sent to DOR and its information is entered into the Municipal Data Bank. Information from the Schedule A is utilized by the Legislature, Federal Bureau of Census and local government officials interested in analyzing the scope of services provided and in making policy decisions.

Audited financial statements are a set of financial reports prepared by a community's finance officials that are audited by an independent certified public accountant. The purpose of an audit is to determine whether or not a town's financial statements present accurately the financial position of the community as of the balance sheet date, and the results of its operations for the year just ended. Some of the reports included in audited financial statements are: a combined balance sheet; a combined statement of revenues, expenditures and changes in fund balance; and a combined statement of revenues and expenditures (budgeted and actual).

There are national standards for such reports. The Government Accounting Standards Board (GASB) promulgates accounting standards that are accepted nationwide. The Commonwealth of Massachusetts has adopted many of these standards for its own Uniform Municipal Accounting System (UMAS). It is important that all financial reports be prepared in a standard format that facilitates greater and easier understanding of the reports by state and federal officials and others (e.g., banks and municipal bond buyers). It is likewise important that financial reports be prepared in a consistent manner and be available on a regular and a timely basis.

In addition to the financial reports that are required to be filed with the DOR, towns and school districts are required to file certain reports with the Department of Education. The principal report is the End of Year School Returns and Fiscal Year School Budget (Schedule 19). This report plays an important role in determining compliance with and the spending requirements of the Education Reform Act of 1993. (See Section 10.3 for more information on End of Year School Returns and Fiscal Year School Budget.)

The town accountant should also prepare interim financial reports during the fiscal year. Interim financial reports allow local officials to compare their actual financial status to their projected financial situation (budget vs. actual, year-to-date revenues and expenditures). Interim financial reports are the principal means by which local officials can monitor an annual budget during the fiscal year. They provide information necessary to alert management to potential fiscal problems.

#### ASSESSMENT ADMINISTRATION

Another critical element of municipal finance is assessment administration. The single largest source of revenue for towns is the property tax, levied on local property according to values determined by the board of assessors. The assessing function is the process by which the value of property is determined for taxation purposes. This function will be discussed further in Section 6 of this Guide, which addresses the role of assessors.

#### PURCHASING

A considerable portion of municipal spending consists of the purchase of supplies and materials. As a result, the purchasing function is a key element in a community's financial management system. The goal of the purchasing function is to ensure that quality goods and services are procured at the lowest possible price. The key elements of purchasing include: setting standards and specifications for the procurement of goods and services; soliciting quotations and ana-

***DOR has a Municipal Calendar available to highlight key reporting deadlines.***

***DOR's Municipal Data Bank has historical data on state-wide revenue and expenditure trends and can provide data comparing a given community with either neighboring or similar communities.***

lyzing them; awarding bids; receiving goods and services; and paying for purchases. Generally, the purchasing function is performed either on a centralized or decentralized basis, which is determined by the town's chief procurement officer.

Towns can also take advantage of quantity, bulk rate discounts available under blanket vendor contracts with the state. Blanket contracts allow purchasing agents to buy specific goods and services at a pre-determined price. For more information on blanket contracts, contact the Massachusetts Department of Procurement and General Services (DPGS).

Decentralized purchasing occurs when each department of town government has the responsibility for procuring the goods and services authorized in its annual budget. Centralized purchasing occurs when the responsibility for purchasing for all departments is vested in one department known as the purchasing agent (often the accountant's office in small towns). One of the primary advantages of centralized purchasing is that the purchasing agent can coordinate the purchase of goods among departments. For example, if three separate departments want to purchase copy paper, rather than soliciting three separate bids (as would occur on a decentralized basis), the purchasing agent can assemble one bulk order in an effort to realize volume discounts.

Another advantage of centralized purchasing is that it facilitates budgetary control. Any requests for the purchase of supplies and materials are submitted to the purchas-

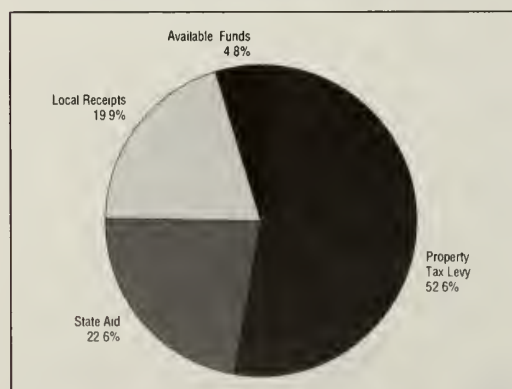
ing agent on a purchase order form. The purchasing agent can then make sure that a departmental request for particular goods or services is authorized by the budget and that sufficient funds are available for its purchase. While state law does not specify how a municipality must organize itself to conduct purchasing (i.e., centralized versus decentralized), it does contain certain requirements. Most purchases of goods and services are governed by M.G.L. Ch. 30B, the Uniform Procurement Code. The procurement code is administered and overseen by the Massachusetts Inspector General.

## 1.2 WHAT ARE THE MAJOR REVENUE SOURCES AND MAJOR EXPENDITURES FOR LOCAL GOVERNMENTS?

The implementation of Proposition 2½ limited the property tax as a revenue source for Massachusetts municipalities. In spite of this, the property tax continues to generate more than half of local revenues. Generally, state aid represents slightly less than a quarter of all revenues, followed by local receipts (motor vehicle excise, utility fees, local permit and license fees, etc.) and available funds (free cash and other reserves).

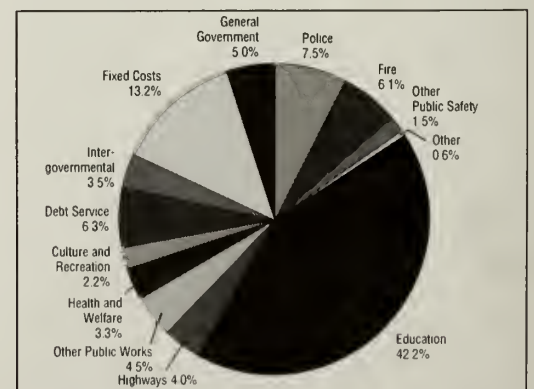
The major expenditure for most municipalities is education. Fixed costs such as health insurance and other benefits now represent the second largest spending municipal category, followed by public safety (police, fire, etc.) and public works.

***Revenue and Expenditure Components: Typical Massachusetts State Totals***



Revenue Components

Figure 2



Expenditure Components

Figure 3

# State/Local Fiscal Relations

# 2

No discussion of municipal finance would be complete without an understanding of the special fiscal relationship that exists between the state and local governments. As a matter of law, each town is considered a "political subdivision of the Commonwealth." The state prescribes the powers and responsibilities of local government.

## 2.1 WHAT IS THE LEGAL FOUNDATION OF MUNICIPAL FINANCE?

The legal foundation of municipal finance is found in the Massachusetts General Laws. The Department of Revenue's Division of Local Services (DLS) publishes a compendium of the statutes relevant to municipal finance in its *Laws Relating to Municipal Finance and Taxation*.

The General Laws of the Commonwealth are supplemented by numerous court decisions, agency regulations, guidelines and interpretations. Copies of current regulations, guidelines and interpretations can be obtained from the administrative agency that promulgated them; regulations are also available from the State House Bookstore in Boston.

## 2.2 WHAT IS PROPOSITION 2½?

Proposition 2½ (M.G.L. Ch. 59 Sec. 21C), which was passed by Massachusetts voters in November of 1980, places a limit on the amount of property taxes a community can levy each year. Proposition 2½ establishes two types of restrictions on the annual property tax levy. First, a community cannot levy in excess of 2.5 percent of the total full and fair cash value of all taxable real and personal property in the community. This limit is referred to as the levy ceiling. Second, and more importantly, a community's levy is

constrained in the amount it may increase from one year to the next. The maximum amount a community can levy in any given year is called the levy limit. The levy limit will always be below or at most equal to, the levy ceiling. It may not as a rule exceed the levy ceiling.

Under Proposition 2½, a community's levy limit increases each year by two factors: an automatic increase of 2.5 percent over the prior fiscal year and any increase in valuation that is not the result of property revaluation. This so-called new growth increase, which varies from year to year, recognizes that new development often results in additional municipal costs. For example, the construction of a new residential subdivision could cause an increase in school enrollment, public safety and other public service costs. (See Section 6.5 of this Guide for further discussion about new growth.)

Proposition 2½ does provide a community with the flexibility to levy more in taxes than would otherwise be permitted under its levy limit. However, with a few exceptions, these additions must be approved by means of a voter referendum. The law establishes two types of tax increases: overrides and exclusions. It also sets out the procedures a community must follow in pursuing one or both of these increases.

Communities have the option of passing an override to obtain additional funds for annual operating budgets and fixed costs, although they may be used to fund any municipal expense. An override increases the community's levy limit for the fiscal year and becomes part of the base for calculating future years' levy limits. The result is a permanent increase in the amount of property taxes a community may levy. The override may be for any amount, so long as the new levy limit, including the override, does not

- *What is the legal foundation of municipal finance?*
- *What is Proposition 2½?*
- *What is free cash?*
- *What is the Cherry Sheet?*
- *What are the major Cherry Sheet accounts?*
- *Why is the Tax Rate Recapitulation Sheet so important?*
- *What is the pension reserve fund and what is its purpose?*
- *What is the maximum amount of revenue towns can realize from fees, licenses and permits?*
- *What is a stabilization fund and how can it be spent?*

***For detailed information regarding Proposition 2½ see DLS' Everything You Wanted To Know About Levy Limits ... But Were Afraid To Ask.***

exceed the overall levy ceiling. An override question is placed on the ballot by a majority vote of the selectmen and must follow the language specified in the M.G.L. Ch. 59 Sec. 21C(g). It must gain the approval of a majority of the electorate.

The exclusion option is available if a community wishes to raise additional taxes to fund capital projects, which are defined as goods and/or services for which a town is authorized to borrow under M.G.L. Ch. 44 Secs. 7 & 8. This would include most public building and public works projects, as well as land and certain equipment purchases. A debt exclusion is used to raise additional taxes for the annual debt service costs of capital projects funded by borrowing. A capital outlay expenditure exclusion is used when the capital project is funded not by borrowing but by an appropriation.

Unlike overrides, exclusions do not become part of the tax base and therefore do not result in permanent increases in the amount of property taxes a community can levy. Exclusions are temporary property tax increases. The additional amount is added to the levy limit only during the life of the debt in the case of a debt exclusion, or for the year in which the capital item is acquired in the case of a capital outlay expenditure exclusion. Also, unlike overrides, the amount of an exclusion is not limited. Exclusions may increase the tax levy above the levy ceiling. Exclusion questions, like override questions, are ultimately decided by the voters. The language to be used for a debt exclusion question is found in M.G.L. Ch. 59 Sec. 21C(k), and for a capital outlay exclusion question in M.G.L. Ch. 59 Sec. 21C(i½). Both exclusions require a two-thirds vote of the selectmen to be placed on the ballot and a majority vote of the electorate for passage.

There are also two types of debt exclusion that do not require voter approval. If a majority of the selectmen vote to accept M.G.L. Ch. 59 Sec. 21C(n), a community may shift all or a portion of its water and sewer capital debt service costs that are currently paid through user charges to the property tax levy. However, the commu-

nity's user charges must be reduced by the amount added to the levy.

The second special exclusion relates to homeowners who need to make residential improvements or repairs to meet certain public health code requirements. This debt exclusion allows a municipality, via the board of health, to contract with third parties to repair or replace faulty septic systems, remove underground fuel storage tanks or remove lead paint. The homeowners then repay the municipality by having a portion of the repair cost — with interest — added to their annual property tax bill for up to 20 years. (See M.G.L. Ch. 111 Sec. 127B½.)

Proposition 2½ also allows a community to reduce its levy limit by passing an under-ride. When an under-ride is passed, the levy limit decreases by the amount voted. This reduces the base for calculating future years' levy limits, which in turn results in a permanent decrease in the amount of property taxes the community may levy. An under-ride question requires a majority vote of the selectmen to be placed on the ballot. It may also be placed on the ballot by means of a local initiative procedure, if one is available by law. Under-rides may be approved by majority vote of the electorate (M.G.L. Ch. 59 Sec. 21C(h)).

The Department of Revenue has published a concise and readable primer on Proposition 2½ called *Everything You Always Wanted to Know About Levy Limits ... But Were Afraid To Ask* and a booklet about the referendum procedure called *Proposition 2½ Referenda Questions*. The water and sewer debt exclusion is explained in Informational Guideline Release (IGR) No. 93-207, "Property Tax Increase for Water and Sewer Debt Costs," and the public health repairs exclusion is explained in IGR No. 94-208, "Municipal Funding of Residential Improvements to Meet Certain Public Health Code Requirements." Both IGRs are available from the DLS Property Tax Bureau.

## 2.3 WHAT IS FREE CASH?

Free cash is the term used for a community's funds that are available for appropriation. Specifically, free cash is generated when actual revenue collections are in excess of estimates, when expenditures are less than appropriations, or both.

Free cash must be certified by the Director of the Bureau of Accounts as of July 1 of each fiscal year upon submission of a community's balance sheet, and cannot be appropriated until certified. Once free cash is certified, it is available for appropriation at the annual or any special town meeting.

Free cash may be used for any lawful municipal purpose, and provides communities with the flexibility to fund additional appropriations after the tax rate has been set. Free cash balances do not necessarily carry over to the next July 1; the Director's certification expires on June 30 at the end of the fiscal year.

Factors that affect free cash are: actual revenues and expenditures versus amounts budgeted as stated above; the amount of collections on property taxes (the less you collect, the less free cash you have); the amount spent in the previous year and deficits in both the general fund and other funds.

## 2.4 WHAT IS THE CHERRY SHEET?

Named for the cherry colored paper on which it was originally printed, the Cherry Sheet combines two separate notifications to each town. The first form, CS 1-ER (now printed on green paper) is the official notification by the Commissioner of Revenue to local assessors of the estimated receipts to be paid to the town by the state during the next fiscal year. The second form, CS 1-EC (printed on the original pink paper), is the official notification of the estimated assessments and charges for the next fiscal year, which the town must pay for the services performed by the state, county and certain regional districts. (Cherry Sheet data are also issued via electronic media.)

The state aid, which is estimated on the green receipts form, consists of three major types — distributions, reimbursements and offsets. Distributions are those aid programs through which funds are given to each town or regional school district according to varying formulas. Reimbursements are amounts paid to reimburse towns and regional school districts for certain activities or services provided. Offsets are a form of reimbursement for special programs that may be spent for a particular purpose by local officials without appropriation in the local budget.

The purpose of the Cherry Sheets is to ensure that local budgets reflect realistic estimates of the amount of revenue a municipality and regional school district will actually receive from the state during the upcoming year. Cherry Sheets also provide municipalities with vital budget information about the amounts that will be assessed upon local governments to pay for the state, county or regional programs in which they participate. A Tax Rate Recapitulation Sheet, filed by local assessors with the Division of Local Services to certify property tax rates, must reflect the receipt and charge figures contained on the Cherry Sheet.

Cherry Sheets can only be distributed after the Legislature agrees on a Local Aid Resolution, or after final enactment of the annual state budget. A Legislative Local Aid Resolution is a commitment to include specified amounts in the final state budget. (See Section 2.6 of this Guide for more information on the Tax Rate Recapitulation Sheet.)

## 2.5 WHAT ARE THE MAJOR CHERRY SHEET ACCOUNTS?

Chapter 70 Aid, Additional Assistance and Lottery Aid recently accounted for 85 percent of Cherry Sheet Aid. Chapter 70 Aid, a type of state education aid, is the largest local aid distribution made to all towns and regional school districts. In FY94, several older state education aid programs were consolidated under the heading Chapter 70 Aid. The new Chapter 70 Aid consists of the former Chapter 70 Aid, Chapter 71

***A Cherry Sheet Manual  
is available from DDR's  
Division of Local Services.***

(Regional School Aid), Chapter 70A (Equal Education Opportunity), the Per Pupil Grant Program and additional funds for the School Choice Program.

Additional Assistance and Lottery Aid are two other sizable local aid programs; each provides aid for unrestricted use by municipalities. Additional Assistance, originally derived from an equalizing formula used during the 1980's, has been frozen at FY92 levels for the past several years. Equalizing formulas provide proportionately more aid to municipalities with lower property values than to those with greater property values. A pro-ratio factor adjusts new funds added to Lottery Aid according to the net lottery receipts available.

A detailed description of these and all other Cherry Sheet programs is included in the *Cherry Sheet Manual*, which is available from the Division of Local Services Municipal Data Bank and Technical Assistance Bureau.

## 2.6 WHY IS THE TAX RATE RECAPITULATION SHEET SO IMPORTANT?

The Tax Rate Recapitulation Sheet reflects the total revenues a community must raise through taxation and other sources to fund local appropriations (and other items such as the assessors' overlay and state and county charges). The recapitulation sheet is submitted to DOR by the assessors and upon its approval, a community may issue its property tax bills. In addition to reflecting a balanced budget, the recapitulation sheet reflects a town's financial planning and policies.

More often than not, this financial policy is made on a *de facto* basis rather than as a result of a formal policy process. Due to the chronology of events and the passage of time from budget adoption to tax rate setting, by the time a tax rate is set in the fall, a community's revenue estimates may have changed substantially. For example, in the autumn, final new growth figures are used rather than the preliminary estimates used during the budget process (see Section

6.5 of this Guide). In addition, in the autumn actual receipts from the prior fiscal year are available to establish parameters for current year estimates (by law, local estimated receipts used to set the tax rate may not exceed the amount of actual receipts received from the same source during the previous fiscal year, except with approval from DOR). Because these actual receipt figures are not available when the budget is adopted at town meeting in the spring, the assessors and other officials may have substantial discretion when determining estimated receipts on the recapitulation sheet. Important policy decisions are made in connection with completing the Tax Rate Recapitulation Sheet. Decisions including whether a town levies to its limit, the amount of overlay raised (see Sections 6.1 and 6.9 of this Guide for more information) and the estimation of local receipts, ultimately affect a town's free cash and overall financial management.

## 2.7 WHAT IS A PENSION RESERVE FUND AND WHAT IS ITS PURPOSE?

There are two types of pension reserve funds: county and municipal. If a community is participating in the county system, pension dollars may be retained by the town and interest on the monies may accrue. Under the municipal pension reserve system, all retirement money must be transferred to a separate entity known as the pension reserve fund. Pension funds have historically been underfunded. This raises a significant concern for many communities that project large increases in pension costs to fully fund future pension entitlements. Anticipating these costs, many communities have begun to appropriate extra funds for pensions to offset future projected increases and to work towards a fully funded system from an actuarial basis. Any community may appropriate funds into a special account for this purpose.

## 2.8 WHAT IS THE MAXIMUM AMOUNT OF REVENUE TOWNS CAN REALIZE FROM FEES, LICENSES AND PERMITS?

Municipalities are allowed to recover 100 percent of the cost of providing fee-based services. Whether or not user fees are set to cover all costs is a policy decision for the town's elected officials and legislative body to make. Some communities set fees to cover only the direct operating costs (e.g., personnel, benefits, expenses) of the service. Other communities consider the indirect costs (related administrative costs and debt service) as well as operating costs. In addition, some communities have accepted enterprise fund legislation (M.G.L. Ch. 44, Sec. 53F½), which requires full accounting for all service related revenues and expenses, and allows a community to accumulate a surplus from certain operations in a separate fund. These funds can then be used for future capital expenditures, to support operations, or to reduce rates (see DOR's *Handbook on Implementing an Enterprise Fund*). The Division of Local Services has also published materials to assist communities in determining the full cost of municipal services. (see DOR's *Costing Municipal Services Workbook*.)

Prior to recent enactment of M.G.L. Ch. 40, Sec. 22F, charges for most local licenses and permits were limited to those amounts set out by statute. However, if M.G.L. Ch. 40, Sec. 22F is accepted in a town by vote of the legislative body, the municipality will have more flexibility in establishing fees for certain local licenses and permits. Under Section 22F, the municipal board or officer authorized to issue a license or permit may fix the fee for these documents at a reasonable amount.

## 2.9 WHAT IS A STABILIZATION FUND AND HOW CAN IT BE SPENT?

Towns that wish to minimize or avoid borrowing money may establish a stabilization fund (M.G.L. Ch. 40, Sec. 5B), which is a special reserve fund that may accumulate and carry forward balances from one fiscal year to another. Interest earned from the investment of monies in the stabilization fund remains with the fund. Originally, the stabilization fund could be appropriated only for purposes for which a municipality could borrow. In 1991, that restriction on the use of this reserve was eliminated so that money from the stabilization fund can now be appropriated for any lawful municipal purpose.

An appropriation from the stabilization fund requires a two-thirds vote of town meeting. Many municipalities fund items such as fire trucks or major building repairs from this account. Use of the account avoids having to incur debt and saves the interest costs of borrowing. Balances within the stabilization fund cannot be legally reserved for future appropriation for a particular item or project.

*DOR's Handbook on Implementing an Enterprise Fund under Ch. 44 Sec. 53F½ is available from the Division of Local Services.*

*DOR's Costing Municipal Services Workbook can help your town accurately determine the cost of its municipal services.*



# Role of Selectmen

# 3

## 3.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF THE BOARD OF SELECTMEN?

The selectmen serve as a town's chief executive body. They have overall responsibility for the general operations of town government. They are usually the major non-school appointing authority for a town. They are authorized to enter into contracts on behalf of the municipality. The details of their duties and responsibilities are outlined in a publication by the Massachusetts Municipal Association called the *Handbook for Massachusetts Selectmen*.

While most other town boards and offices serve a particular function (e.g., assessors, finance, school, health), the selectmen's responsibilities are much broader. Their job is often one of sorting out the various positions of different departments and boards to determine the best overall course of action for the town. Selectmen should play an active and strong role in the financial management of the town.

A major role of the selectmen should be to coordinate the roles of all players in the financial management process and to promote a team approach for addressing the fiscal issues of the town. Selectmen should participate in the budget process, directly reviewing budget requests and having input at all levels of the process. They should provide leadership in the development of a capital improvement program and a risk management policy (i.e., insurance). Throughout the fiscal year, the selectmen (in conjunction with the finance committee), should monitor the financial performance of the town. Finally, selectmen should assume an active role in any issue or policy that has broad implications for the financial condition of the town, including such issues as tax clas-

sification, free cash policy, use of a stabilization fund, financial reporting and the audit process.

## 3.2 WHAT ARE THE KEY INGREDIENTS FOR SUCCESS AS A SELECTMAN?

Perhaps the most important ingredient for success as a selectman is understanding the full responsibilities of the position as well as its limitations. Selectmen serve as the civic leaders of the town. In this capacity, selectmen need to devote sufficient time to municipal issues, and also need the ability to delegate appropriate tasks and responsibilities. In general, selectmen develop policies as directed by town meeting, and the appropriate department head, board or officer within the community is responsible for administering those policies. However, selectmen also serve in a reviewing role, and as such are ultimately responsible for the successful administration of various town policies and undertakings.

Members of the board of selectmen should also be aware of the fact that they, as well as all other members of elected or appointed boards, may act in their official capacity only when in an open public meeting with a majority of the board present, or when specifically delegated by a majority of the board.

Since most boards of selectmen appoint many positions, their ability to recruit and select the best and brightest people available is another key ingredient to success. This is particularly important for any appointments in the area of financial management. The individuals who serve in positions such as treasurer, collector and accountant will determine the quality of the fiscal management of the town. For such appointed positions, it is important that the selectmen

- *What are the basic roles and responsibilities of the board of selectmen?*
- *What are the key ingredients for success as a selectman?*
- *What role should the selectmen play in the budget process?*
- *What is the role of the selectmen in a Proposition 2½ referendum?*
- *Why should municipal audits be so important to selectmen?*
- *What opportunities exist for the selectmen and the finance committee to work jointly?*

identify and document the requisite qualifications and experience, and establish specific measurements of performance, however general. The selectmen should also support fair and competitive compensation for the key fiscal officers of the town. Competitive compensation can help selectmen retain the most qualified individuals to serve in these important positions.

Selectmen should also take an active interest in the reports produced by the financial officers of the town. They should ensure that the reports are prepared and should review them with the assistance of the person or board that prepared them. Financial reports can seem overly technical and unreadable for the fiscal neophyte. However, with a minimum of help, the reports can be read and comprehended fully. For most financial officers, their job is made easier when the selectmen understand and take an active interest in the community's financial reports.

As the chief executive officers of a municipality, selectmen must be able to coordinate the activities of the various officials serving in financial management positions. Selectmen should sponsor periodic meetings with financial officials and attempt to establish and maintain effective channels of communication. It may be constructive to establish a financial management team, with representatives from the board of selectmen, finance committee and other financial offices. This fiscal team would convene periodically to discuss the communities' overall financial management.

### 3.3 WHAT ROLE SHOULD THE SELECTMEN PLAY IN THE BUDGET PROCESS?

As the chief executive body of the town, selectmen develop and implement policy. It is important that they develop consistent budget guidelines, at the same time taking into consideration the available financial resources of the municipality. Because the budget is probably the single most important policy document a town develops each year, participation by the selectmen is essen-

tial to their maintaining a leadership role in the town. The selectmen should have input concerning the budget's format, they should review all budget requests and develop a good understanding of the finance committee's position on the budget. The selectmen, in cooperation with the finance committee, should also establish policy priorities and provide leadership in the constant debate between the needs of municipal departments (for sufficient resources to deliver public services) and the needs of the taxpayers (to receive adequate services at a cost they can afford).

### 3.4 WHAT IS THE ROLE OF THE SELECTMEN IN A PROPOSITION 2½ REFERENDUM?

The selectmen have the sole power to place a Proposition 2½ override or exclusion question on the ballot for voter approval. Override or exclusion questions may not be placed on the ballot by vote of town meeting or through use of a local initiative process. Unless a local initiative process is provided by law, the selectmen also have the sole power to place an override question on the ballot. (If a local initiative process is available in a community, the people may use the initiative process to place an override question on the ballot as well.) In most instances, a majority vote of the selectmen is needed to place an override or override question on the ballot; a two-thirds vote is required for an exclusion question. All ballot questions require a majority vote of the electorate for approval.

Selectmen may advocate for or against a Proposition 2½ ballot question just like other citizens. However, selectmen should be aware that local officials may not spend public funds for political purposes. This means that municipal funds and resources — such as personnel, supplies and facilities — may not be used to influence the outcome of a Proposition 2½ referendum. The Office of Campaign and Political Finance is responsible for administering and enforcing campaign finance laws (M.G.L. Ch. 55) and can provide further details about the application

of these laws to the conduct of local officials and employees in the Proposition 2½ referendum process.

### 3.5 WHY SHOULD MUNICIPAL AUDITS BE SO IMPORTANT TO SELECTMEN?

A municipal audit is an independent review of a town's financial position to determine its reasonableness and completeness. The selectmen are the appropriate body to see that these audits take place on a regular basis and to represent the interests of the town in reviewing an audit.

Audit reports should also include a management letter from the firm conducting the audit commenting on any material weaknesses in the management process. If an audit management letter reveals improper or inadequate procedures in the municipality's financial management, the problems should be corrected as soon as possible. The selectmen should provide the impetus to see that corrective recommendations take place, and should also monitor the implementation of those recommendations.

### 3.6 WHAT OPPORTUNITIES EXIST FOR THE SELECTMEN AND THE FINANCE COMMITTEE TO WORK JOINTLY?

There are many opportunities for cooperation between the board of selectmen and the finance committee, including the following: developing financial forecasts; establishing an appropriate budget and capital planning process; developing joint guidelines by which departmental requests will be reviewed; joint budget hearings with department heads and policies regarding the use of free cash and the stabilization fund.

It makes sense for the two committees to work together closely. By agreeing on processes and procedures ahead of time, both boards will save time and can avoid disagreements during the budget process.

*The Division of Local Services' Audit Primer can help new and experienced town finance officials ensure their audits are conducted well and efficiently.*



# *Election vs. Appointment of Financial Officers*

## 4

### 4.1 WHY ARE SOME FINANCE OFFICERS ELECTED AND OTHERS APPOINTED?

Municipalities have some options regarding the organization of their finance functions. All communities with a total valuation over \$1 million (all towns in Massachusetts currently exceed this amount) are required to have a finance committee. Its members may be appointed or elected. When appointed, the appointing authority is usually either the town moderator and/or the board of selectmen.

Boards of assessors may be either elected or appointed, as can the treasurer or collector. Traditionally, treasurers and collectors have been elected. To make the position an appointed one, municipalities must generally obtain legislation. The positions of treasurer and collector may be combined in the same fashion. (See Section 7.4 of this Guide for more information.)

The town accountant serves a critical financial function; the accountant is generally appointed by the board of selectmen. Some smaller towns have also elected one or more auditors to review the town's books. Auditors must be elected, but the position may be abolished if the position of town accountant is established.

For those positions that can be either elected or appointed, there has been much debate about which method of selection is best. This is primarily a policy decision for a given community. Capable people have served their towns in these positions under either method of selection. Municipalities that choose to elect these positions prefer to have the positions directly accountable to the voters and independent of any appointing authority. Municipalities that choose to appoint the positions prefer to be able to recruit individuals with the required qualifications and not be limited to residents of the town. They also prefer to have the position accountable to the board of selectmen. Towns that wish to restructure their organization to provide for appointed financial officials under the consolidated direction of a director of finance may adopt Chapter 43C, an act providing optional forms of municipal administration. Adoption of this fiscal structure is initiated by a petition process to place the question before the town's voters.

- *Why are some finance officers elected and others appointed?*



# Role of the Finance Committee

# 5

## 5.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF THE FINANCE COMMITTEE?

The finance committee is the official fiscal watchdog for a town. Because it is difficult for all taxpayers to be completely informed about every aspect of a town's finances, finance committees were established so a representative group of taxpayers could conduct a thorough review of municipal finance questions on behalf of all citizens.

The role of the finance committee is described in detail in two different publications available to local officials. The first is the *Massachusetts Finance Committee Handbook* published by the Association of Town Finance Committees. A new edition is published every few years, with annual supplements published in the intervening years. It is an excellent resource on the role of the finance committee. The second publication is the *Finance Committee Primer*, also published by the Association of Town Finance Committees, which is a useful reference for the financial management process for both new and veteran members of a finance committee.

The primary duties of a finance committee are to advise and make recommendations to town meeting on the budget and other areas of finance. Their statutory authority is limited to making transfers from the town's reserve fund (a contingency fund usually created as part of the annual budget appropriations) to other line items in the budget for extraordinary or unforeseen occurrences.

In addition to their research and advisory role at town meeting, the committee can play a vital role in the financial planning of the town. In some communities, the finance committee develops long-range revenue and expenditure forecasts, which are very useful in scheduling large capital acquisitions and

identifying major changes in the operating budget of the town.

## 5.2 WHAT ROLE DOES THE FINANCE COMMITTEE PLAY IN THE BUDGET PROCESS?

The finance committee is primarily responsible for submitting its recommendations on the annual budget to the town meeting. In assuming this responsibility, the committee influences the entire budgetary process.

The committee is also commonly involved in the budget preparation, which involves the development of budget forms and, in many communities, the establishment of budgetary guidelines for department heads.

Once departmental budget requests are submitted, the committee reviews them all and makes recommendations on the requests to town meeting. Prior to town meeting, the finance committee often conducts budget hearings to allow more extensive review of the budget. Again, a more detailed description of the role of the finance committee can be found in the *Massachusetts Finance Committee Handbook* and the *Finance Committee Primer*.

## 5.3 HOW CAN THE FINANCE COMMITTEE PREPARE A BUDGET WHEN REVENUE AND EXPENDITURE ESTIMATES ARE ALWAYS CHANGING?

Preparing a budget involves making some judgments or educated guesses about future needs and resources. It is difficult for any financial projection to be precise. Estimates on revenues and expenditures must be made with the benefit of historical analysis and a knowledge of changing conditions that may alter any historical trends.

- *What are the basic roles and responsibilities of the finance committee?*
- *What role does the finance committee play in the budget process?*
- *How can the finance committee prepare a budget when revenue and expenditure estimates are always changing?*
- *Under what circumstances should the finance committee use the reserve fund?*

Computers can help local officials analyze the available information. The Division of Local Services has an automated forecasting application, Revenue and Expenditure Forecasting software, that may be particularly useful. Furthermore, once the initial estimates are made, they must be continually reviewed and revised as more timely information becomes available. Monthly financial reports from the treasurer or accountant are a good idea because they inform the finance committee of changes in the town's financial situation that may affect the next year's budget.

Budgets should be prepared with contingencies built into them. Towns should maintain a base amount of unappropriated free cash or other reserves on hand in case original estimates vary by substantial amounts. If the first drafts of a budget allow some revenues to remain unallocated, then the committee will have more flexibility in adapting to changing revenue and expenditure estimates.

#### 5.4 UNDER WHAT CIRCUMSTANCES SHOULD THE FINANCE COMMITTEE USE THE RESERVE FUND?

The reserve fund exists to fund extraordinary and unforeseen expenses. It is disbursed through transfers approved by the finance committee. How the fund is used depends upon a community's interpretation of the terms "extraordinary" or "unforeseen." Some towns assume a very conservative interpretation and use the funds only for dire emergencies (e.g., natural disasters). Other communities take a more liberal view and are willing to use the fund for less critical purposes that were simply not foreseen when the budget was approved. However, if town meeting has rejected funding for a particular item, it cannot later be funded through the reserve fund. In general, extraordinary or unforeseen items such as an increased insurance premium or replacing a damaged police cruiser are acceptable. Salary increases are generally not an acceptable use of this reserve.

Finance committees should adopt their own guidelines to supplement the state statute and provide other town officials with a better understanding of the circumstances under which the committee is likely to use the reserve fund.

# Role of Assessors

# 6

## 6.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF THE ASSESSORS?

The board of assessors is responsible for the valuation of real and personal property for the purposes of levying the property tax. Being an assessor requires technical training, taking responsibility for maintaining assessments at full and fair cash value and meeting the Commissioner of Revenue's re-certification requirements of property valuation every three years.

As part of their duties, assessors must maintain a database on each parcel of property in the town. This information is typically recorded on a property record card. Included on the property card is information such as the address of the owner and/or the property, the measurements of the land and a description of any structures, including their quality and condition. Assessors then value property based on a full and fair cash value standard using mass appraisal techniques. Thus, if a three-bedroom cape in a particular community were selling in the \$140,000 range, other properties in the same town with similar characteristics should be valued similarly (as of January 1 of each year).

The assessors are also responsible for submitting annually a Tax Rate Recapitulation Sheet (see Section 2.6 of this Guide for more information on Tax Rate Recapitulation Sheets) to DOR's Bureau of Accounts. This calculation is submitted to the Department of Revenue as evidence that the town has a balanced budget within the limits of Proposition 2½. The Department must approve the annual levy growth, Tax Recap Sheet, and set the tax rate before a community can issue its tax bills.

Property taxes can be paid each year in either two payments or four quarterly payments. Tax bills are due on a twice-yearly basis unless the town adopts a quarterly billing cycle. Tax bills for towns billing semi-annually should be issued by October 1 and April 1. In a revaluation year, if a community issuing semi-annual tax bills is late in determining its property valuations, it may ask the Department of Revenue for permission to issue an estimated (preliminary) tax bill based on the previous year's actual taxes. Guidelines for this process are available in an annually updated Information Guideline Release (IGR) available from the DOR.

Quarterly tax bills must be mailed by July 1 (for the first two quarters of the fiscal year) and December 31 (for the remaining two quarters). The July 1 billing consists of estimated taxes due based on the previous fiscal year's tax. The December 31 bill is the actual remaining tax due for the fiscal year. Guidelines for the quarterly tax billing process are available in an annually updated IGR from the DOR.

Assessors also have the authority to grant abatements and exemptions to taxpayers. An abatement request is filed when a taxpayer feels the assessed value of his or her property is too high or disproportionately assessed. The assessors then examine the circumstances to see if the request has merit. If the assessors decide in favor of the taxpayer, an abatement is granted and the taxpayer will receive a reduction in the amount of tax owed. Taxpayers may also appeal assessors' decisions to the Appellate Tax Board (ATB).

Exemption from taxation is a statutory privilege conferred on various categories of persons or property. Some of the most frequent exemptions include religious or charitable organizations, disabled veterans, elderly persons, surviving spouses and the blind.

- *What are the basic roles and responsibilities of the assessors?*
- *Why is the assessing function so important to the overall financial management of the town?*
- *What are the ingredients for successful assessing?*
- *What is involved in the revaluation of property?*
- *What is new growth and how does it affect the levy limit? When should new growth estimates be available?*
- *When should a board of assessors seek and utilize professional assistance?*
- *What is computer assisted mass appraisal or CAMA?*
- *What is a classified tax rate? What are the residential exemption, open space discount and small commercial exemptions? Who makes classification decisions?*
- *What is overlay surplus and how can these funds be spent?*

All abatements and exemptions are funded from an account called overlay. This is a special account, the amount of which is established annually by the assessors prior to setting the tax rate. The amount established for overlay should reflect the expected amount needed to cover abatement and exemption costs for the entire year.

Assessors need to establish and maintain public trust and confidence in the valuation process. This critical function is accomplished by a comprehensive program of education and public disclosure. Assessors should be especially sensitive to being accessible to citizens.

## 6.2 WHY IS THE ASSESSING FUNCTION SO IMPORTANT TO THE OVERALL FINANCIAL MANAGEMENT OF THE TOWN?

The role of the assessors is important because they oversee real and personal property valuations, upon which the property tax is based. The property tax is usually the largest revenue source of a town. Any delays or errors in the valuation of property or the issuance of the tax bills themselves can result in borrowing or misallocation of the tax burden. Tax bills cannot be issued until a tax rate has been set by DOR. Delays in sending out tax bills can cause substantial amounts of short-term tax anticipation borrowing and related interest costs. These interest costs are paid with funds the town could otherwise spend on goods and services. In addition, late tax bills result in significant lost investment opportunities because property tax revenues are not earning interest in municipal bank accounts.

## 6.3 WHAT ARE THE INGREDIENTS FOR SUCCESSFUL ASSESSING?

There are five principal ingredients for successful assessing. The first is to maintain up-to-date property values. This involves ensuring that the properties are revalued in accordance with state law and that the process is managed properly and in a timely fashion.

A second ingredient is accurate and timely calculations of tax levy growth. In preparing the annual operating budget, estimates of new growth are needed as soon as possible to help create a realistic revenue forecast for the next fiscal year. The third ingredient is close communication with the board of selectmen and the finance committee. These boards depend on information from the assessors to prepare the budget.

If communication with the other fiscal officers of the town is important, so is communication with the Department of Revenue, the fourth major ingredient. It is best for assessors to keep DOR informed and to ask questions whenever in doubt.

The final ingredient for success is the continued professional development of the board members and clerical staff. State law requires training for newly elected or appointed assessors within two years of taking office. Beyond this requirement, however, the board is well served when its members seek additional training throughout their tenure on the board. The Department of Revenue sponsors a number of training opportunities each year for both assessors and clerks in various locations across the state.

## 6.4 WHAT IS INVOLVED IN THE REVALUATION OF PROPERTY?

Chapter 797 of the Acts of 1979 requires that local assessors plan and carry out a periodic reassessment program to ensure full and fair cash value assessments. The Department of Revenue certifies that a community's property valuations are at full value every three years through a certification process. To comply with this mandatory certification, communities revalue their property so that it accurately reflects the market. For residential properties, this process involves comparing new values with recent sales data in the community. Other techniques are used to value business properties.

Revaluation is a time consuming and complex process. Towns should decide the cost benefit of maintaining year-round staff versus contracting with a firm specializing in revaluation. Managing an appraisal vendor

and the revaluation process itself are the responsibilities of the assessors. Contract bidding procedures must be followed (M.G.L. Ch. 30B), and references from other communities should also be sought. The Department of Revenue must approve all revaluation contracts.

The three-year revaluation process requires a commitment of funds that should be planned for in advance and managed closely. Revaluation can be controversial, because assessed values change and the tax relationships between properties can change as well. Good public relation efforts are necessary to inform taxpayers of the process and to increase taxpayer confidence.

#### 6.5 WHAT IS NEW GROWTH AND HOW DOES IT AFFECT THE LEVY LIMIT? WHEN SHOULD NEW GROWTH ESTIMATES BE AVAILABLE?

New growth is generated by an improvement to a property or an increase in a property's value independent of market inflation. New growth is calculated by multiplying the allowable new valuation times the prior year's tax rate. It directly increases the levy limit of a community. This is especially important for towns experiencing significant new construction, since this sort of growth frequently brings with it a need for increased municipal services.

Calculations of new growth in a town can begin on January 1 for use in the next fiscal year. The process can take several months after the January 1 assessment date to complete, sometimes until June 30 if the relevant provision M.G.L. Ch. 59S Sec. 2A (accelerated growth) has been adopted. Assessors should be able to provide the selectmen and the finance committee with new growth estimates prior to town meeting. This is an important step in projecting available revenues for the following year's budget.

#### 6.6 WHEN SHOULD A BOARD OF ASSESSORS SEEK AND UTILIZE PROFESSIONAL ASSISTANCE?

A board of assessors should seek professional assistance on issues or tasks for which the board has insufficient experience, expertise or time. Professional assistance is most often sought by local assessors for revaluation services and for the assessment of special-use properties, such as a nuclear power plant or shopping mall.

Larger towns frequently employ an in-house professional assessor to perform many or all of the technical aspects of the job. Smaller towns can share a professional assessor with one or more surrounding towns.

In-house professional assistance can provide help with the daily requirements of the assessors' job, and may preclude the need for outside help for special issues or revaluation. In addition, extra clerical assistance can often pay for itself in the form of timely tax bills, reduced tax anticipation borrowing, and improved services to taxpayers.

#### 6.7 WHAT IS COMPUTER ASSISTED MASS APPRAISAL OR CAMA?

CAMA is a hardware and software system designed to help assessors maintain full and fair cash value property assessments at a reasonable cost. Numerous CAMA systems have been developed nationwide and are available to Massachusetts communities through private vendors or the Division of Local Services. DOR has developed its own version of CAMA specifically for Massachusetts communities.

DOR's Division of Local Services has published a generic "CAMA decision kit" about the technical details and cost benefit analysis of any CAMA system. Local officials should review this kit to determine a CAMA system's appropriateness for their town. When appropriate, each system has the potential to improve the productivity of a municipality's assessing function signifi-

*Guidelines for establishing new growth figures are provided by the Department of Revenue in an annually updated Informational Guideline Release.*

cantly. DOR's Bureau of Local Assessment staff is available to discuss CAMA options with local officials, and publishes a guideline for the development or acquisition of a CAMA System.

### 6.8 WHAT IS A CLASSIFIED TAX RATE? WHAT ARE THE RESIDENTIAL EXEMPTION, OPEN SPACE DISCOUNT AND SMALL COMMERCIAL EXEMPTIONS? WHO MAKES CLASSIFICATION DECISIONS?

Each year, the assessors must classify all real property within the town into one of four real property classes (residential, open space, commercial and industrial) using guidelines established by the Department of Revenue. The selectmen then adopt a residential factor, which determines the percentage of the tax levy to be borne by each class of real property and by personal property (movable goods and materials not affixed to real estate), according to a statutory allocation formula calculated by the Commissioner of Revenue. (M.G.L. Ch. 58 Sec. 1A.) The formula establishes the limits within which a town may shift the tax burden from residential and open space property to commercial, industrial and personal property to allow multiple tax rates.

Ordinarily, under a single tax rate system, if residential property totaled 81 percent of a community's taxable property and 4 percent of the community's taxable property were open space, then 81 percent of the community's tax levy would need to be raised by residential property taxes, 4 percent would be raised by open space taxes and the remaining 15 percent would be raised by taxes levied on commercial, industrial and personal properties. However, the law allows a town to increase the levy share of commercial, industrial and personal property classes by as much as 50 percent in order to reduce the tax burden on residential and open space property, as long as the resi-

dential and open space classes raise at least 65 percent of their single tax rate share.

Chapter 200 of the Acts of 1988 provides relief for those communities in which the maximum shift results in a residential share that is larger than the prior year's. Those communities may increase the commercial and industrial properties share of the levy by as much as 75 percent if the residential class would not be reduced to less than 50 percent of its single tax rate share by doing so. However, this residential share cannot be less than the residential share in any year since the community was first certified at full and fair cash value.

The selectmen may also adopt an open space discount and/or grant residential or small commercial exemptions as part of this classification process. The selectmen's exemption decisions must be preceded by a public hearing. (M.G.L. Ch. 40 Sec. 56.)

Selectmen may apply a discount of up to 25 percent to open space. The open space discount reduces taxes on property classified as open space and shifts those taxes onto residential property. The purpose of the discount is to encourage preservation of a community's undeveloped open space land.

The selectmen may also grant a residential exemption of a dollar amount that cannot exceed 20 percent of the average assessed value of all residential class properties. The exemption reduces, by the adopted percentage, the taxable valuation of each residential parcel that is a taxpayer's principal residence. Granting the exemption raises the residential tax rate and shifts the residential tax burden from moderately valued homes to apartments, summer homes and higher valued homes. A residential exemption is one way resort areas (e.g., Cape Cod and the Berkshires) can provide some tax relief for permanent residents.

Another option under classification is the small commercial exemption. This exemption is for commercial parcels occupied by businesses with average annual employment

of no more than 10 people during the previous calendar year and values of less than one million dollars. The selectmen may choose an exemption that reduces the taxable valuation of each eligible parcel by a percentage of up to 10 percent. Qualifying small businesses are certified to the assessors annually by the Department of Employment and Training. The exempted taxes are shifted to other commercial and industrial taxpayers through an increase in their tax rates.

Finally, a community may add water and sewer project debt service costs to its levy limit or levy ceiling for the life of the debt, as long as it reduces water and sewer rates by the same amount. The water and sewer debt exclusion is adopted by a majority vote of the community's selectmen and may include all or part of existing and subsequently authorized water and sewer debt or just the residential share of that debt.

## 6.9 WHAT IS OVERLAY SURPLUS AND HOW CAN THESE FUNDS BE SPENT?

Abatements and exemptions funded from the overlay account (see Section 6.1 of this Guide for more information) for a particular fiscal year often vary from the actual amount in the account. When there is a balance in the overlay account, it may be transferred by the board of assessors to an account called overlay surplus. As a result of recent legislation, these funds may be appropriated by town meeting for any purpose for which a town may expend funds. At the close of the fiscal year, any balance in the overlay surplus account becomes part of the free cash calculation on July 1 of the following fiscal year.



# Role of the Treasurer

7

## 7.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF A MUNICIPAL TREASURER?

The treasurer is the cash manager of a town. The position is responsible for the deposit, investment and disbursement of town funds. The treasurer is empowered by town meeting to issue debt on behalf of the town with the approval of the selectmen. During the year, the treasurer must determine the cash needs of the municipality (i.e., when money will be available to invest and when money will have to be borrowed to meet expenses). When a town decides to issue long-term bonds, the treasurer prepares for the sale by working with the community's financial advisor, bond counsel and other local officials.

The banking services of the town are selected, procured and managed by the treasurer. Some treasurers pay a direct fee or fees to the bank in return for services, while others maintain balances in non-interest bearing accounts in return for services. This latter method of funding banking services is called a compensating balance. The compensating balance alternative is governed by state law and regulations, which require written agreements, competitive procurement, authorization by town meeting and approval by the selectmen. Either method is appropriate as long as the town is aware of the actual cost of the services and ensures that it is competitive with other banks.

The principal duties of the treasurer are stated in M.G.L. Ch. 41, Secs. 35 & 36. There are, however, many other statutory references to the treasurer in the General Laws and guidelines established by DOR. The Department has published a *Treasurer's Manual* that describes the detailed responsibilities of the position.

## 7.2 WHAT IS A CASH FLOW BUDGET?

A cash flow budget is an analysis that estimates and monitors the projected cash position of a town during the fiscal year. Usually, estimated revenues and expenditures are charted on a monthly basis. Thus, for each month, the cash flow budget should show whether the town will have surplus cash that can be invested to earn interest or whether the town will have a cash deficit requiring temporary borrowing until new revenue is received.

The cash flow budget is important because revenues are received by the town at times that differ from when expenditures are made. Major revenues, like property taxes and state aid, are received in large sums at specific points during the fiscal year. Expenses, however, are disbursed in a more even pattern throughout the year. It is not unusual for a town to have cash surpluses for part of the year and cash deficits at other times during the year. Treasurers maintain cash flow budgets so they can forecast their borrowing needs and investment opportunities.

## 7.3 WHAT ARE THE KEY INGREDIENTS TO BEING A SUCCESSFUL TREASURER?

Like other key financial officers of the town, a key ingredient for success as a treasurer is adequate and continued professional development. The Massachusetts Collectors and Treasurers Association offers all treasurers and collectors a three-year training program, with certification granted upon receipt of a passing grade on the required exams. DOR provides a four-day training course for both new and experienced treasurers.

- *What are the basic roles and responsibilities of a municipal treasurer?*
- *What is a cash flow budget?*
- *What are the key ingredients to being a successful treasurer?*
- *Why do some towns combine the positions of collector and treasurer?*

*A Treasurer's Manual is available from DOR's Division of Local Services for detailed information on the responsibilities of a town treasurer.*

Other key ingredients to being a successful treasurer include maintaining a cash flow budget that is updated and adjusted on a regular basis, reviewing available banking services and seeking competitively those that are the most cost effective. Investments should be made in accordance with a written investment policy that is reviewed by the selectmen and the finance committee. (There are also legal restrictions regarding allowable investment instruments for municipalities.) A strong recordkeeping system and the use of a cash reconciliation policy are also important to document fiscal performance. Finally, it is important for the treasurer to maintain a close, effective working relationship with the town's other financial officers, especially the collector, accountant, finance committee and the board of selectmen. This management team approach is necessary regardless of whether the position of treasurer is elected or appointed.

#### 7.4 WHY DO SOME TOWNS COMBINE THE POSITIONS OF COLLECTOR AND TREASURER?

The duties and responsibilities of the positions of treasurer and collector are inter-related. Both involve the movement of a town's money. State laws permit a municipality to combine the positions, and many towns have chosen to do so. Even some communities that have separate positions on paper have combined the jobs informally by electing or appointing the same person to serve in both capacities. Combining the positions provides some assurance that the operations of both offices will be integrated and thus increasingly well coordinated.

In communities with larger operations, combining the positions can still work well because staff can be employed to perform tasks specific to one position or the other, but still remain under the direction of one person. In addition, towns may consider cross-training personnel to allow workers to shift to different job functions to help meet peak period demands. However, decisions on whether or not to combine positions or cross-train staff are policy choices for each town to make.

# Role of Collector of Taxes/ Town Collector

8

## 8.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF THE COLLECTOR OF TAXES/TOWN COLLECTOR?

A tax collector and a town collector have different responsibilities. A tax collector may only collect taxes and excises. A town collector holds additional authority to collect other amounts owed to the municipality, such as charges for permits, licenses and fees for municipal utilities and services. A tax collector may be made a town collector simply by a favorable vote of town meeting.

The Department of Revenue has prepared a manual detailing the duties and responsibilities of a municipal tax collector. This manual, entitled *Manual for a Collector of Taxes*, constitutes the text for a series of educational sessions offered annually by DOR.

A tax collector must establish and maintain an effective and reliable record-keeping system. All money received should be deposited as quickly as is reasonably possible. Moreover, all receipts must be turned over to the treasurer at least once a week. Turn overs should be especially prompt during heavy collection periods.

Unfortunately, municipal receivables are not always paid in a timely manner. Therefore, tax collectors must expend significant resources and effort pursuing delinquent accounts. (Section 8.2 of this Guide discusses available collection procedures.)

The motor vehicle excise generates substantial revenues for towns, and the Registry of Motor Vehicles assists municipalities with the collection of these funds. At the option of each municipality, the Registry provides either actual bills or, alternatively, a billing tape that the municipality may use to gener-

ate its own bills. In either case the billing information from the Registry goes to the assessors who, after processing, submit it to the collector, together with a list and a warrant.

Tax collectors should work aggressively to collect all bills submitted to them. Clearly, uncollected revenues may substantially impair a town's financial position.

## 8.2 WHAT IS TAX TITLE AND WHY IS IT USED? WHAT OTHER COLLECTION MECHANISMS DOES A TOWN HAVE AT ITS DISPOSAL FOR PROPERTY TAXES, MOTOR VEHICLE EXCISE AND USER FEES?

When a municipality levies a tax upon a parcel of real property, a lien for that tax arises automatically on the parcel. Unless the tax collector secures this lien, however, it may be lost if the tax remains delinquent for a period of three years and the property subsequently changes ownership.

A tax collector may avoid the loss of such a tax lien by placing the subject property into tax title. This process secures the lien. At the same time, a tax-taking transfers responsibility for collection of the tax to the municipal treasurer. The treasurer may then initiate foreclosure proceedings and the municipality may ultimately obtain possession of the property.

A town can also bring a civil lawsuit against a tax delinquent, but only when the individual is personally liable for an unpaid excise or tax. This method of collection is most frequently used in situations involving personal property and motor vehicle excises. Only when a tax lien on real property has been lost would a tax collector typically utilize this method to enforce collection.

- *What are the basic roles and responsibilities of the collector of taxes/town collector?*
- *What is tax title and why is it used? What other collection mechanisms does a town have at its disposal for property taxes, motor vehicle excise and user fees?*
- *What are the key ingredients to becoming a successful collector of taxes or town collector?*

*For more information, see  
Division of Local Services  
Manual for a Collector of  
Taxes.*

For delinquent motor vehicle excises, collectors possess a variety of collection methods. Of these, placing a delinquent's license and registration in non-renewal status at the Registry of Motor Vehicles has proved particularly effective.

At local option, a municipality may adopt a collection procedure for user fees. Under this procedure, unpaid fees may be added to a delinquent user's real property tax bill, thereby constituting a lien upon the property.

Collectors may also request that any municipal monies due to a tax delinquent instead be applied to the unpaid bill. A treasurer would respond to such a request by paying over any taxpayer refund or abatement to the collector instead.

Finally, a municipality may adopt a collection procedure whereby some local licenses held by a delinquent taxpayer may be denied, revoked or suspended.

For all of these collection remedies, the DOR's *Manual for a Collector of Taxes* sets out specific requirements for utilizing the procedures.

### 8.3 WHAT ARE THE KEY INGREDIENTS TO BECOMING A SUCCESSFUL COLLECTOR OF TAXES OR TOWN COLLECTOR?

As with other financial positions, success as a collector requires annual training and long-term professional development. Consequently, the Department of Revenue provides instruction for both experienced and new collectors.

Successful collectors aggressively pursue the collection of delinquent accounts. Timely execution of collection remedies dramatically increases the rate of collection of municipal monies.

Collectors should also strive to process payments quickly in order to make swift deposits and thereby increase interest accruals. Prompt deposits are especially important around peak property tax collection times. Collectors can maximize use of their staff during these periods in order to generate additional investment income. Some towns hire part-time staff or borrow staff from other departments during such periods. In addition, many municipalities engage lock-box services offered by banks. Property owners mail their payments directly to a lock-box, and the funds are deposited into town accounts the same day.

Successful collectors maintain timely and accurate records. All collectors should maximize use of automated systems to speed up and increase the accuracy of recorded transactions. Although smaller towns may not have extensive access to sophisticated computer equipment, they may augment the effectiveness of their collection procedures through cooperative efforts with neighboring communities or contracts with service bureaus.

Finally, collectors should communicate with taxpayers. Collectors who make residents aware that all taxpayers will be treated uniformly and courteously, and that consistent and fair collection methods will be used for all receivables, encourage prompt payment and a higher collection rate.

# Role of the Town Accountant (Town Auditor)

9

## 9.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF THE TOWN ACCOUNTANT (TOWN AUDITOR)?

The General Laws of the Commonwealth provide for the election of one or more town auditors. The role of this position is to review the municipality's financial books and ensure that proper procedures are being maintained. The laws also provide for the appointment of a town accountant. Towns that have made such an appointment have the option of abolishing the position of auditor. All but the smallest towns in Massachusetts have appointed town accountants and abolished the position of auditor. The town accountant automatically assumes the auditor's duties upon the abolition of the auditor position.

The town accountant is usually someone with training and experience to maintain the municipality's key financial records. These records include statements of expenditures and revenues, as well as a balance sheet of assets, liabilities and fund balances. The records verify that a town's monies are being collected and disbursed in accordance with the municipality's financial policies, including its operating budget.

Town accountants review proposed expenditures to make sure that money has been lawfully appropriated to pay for them. Accountants are empowered to prepare all warrants for payment (a warrant is a list of bills drawn up by the accountant for signature by the selectmen or manager) and to withhold payment of a particular item if they have reason to believe the expense is illegal or not an approved appropriation. To authorize expenditure payments, accountants should make sure that services have

been performed, that sufficient money is available in the appropriation account, that the expenditure is for a legal purpose, and that procurement of the good or service occurred in conformance with purchasing requirements.

Copies of all contracts involving payments to vendors should be sent to the office of the accountant, who will approve all requests for payment upon receipt of goods or services by the town. The accountant is responsible for custody of all municipal contracts.

In addition, the town accountant is responsible for the preparation of numerous summary reports, including the annual statement of expenditures and revenues and the annual balance sheet. Required annual reports like the Schedule A (detailed statement of revenues and expenditures) are usually completed by the accountant. The Schedule A must be prepared and submitted to the Department of Revenue by a pre-determined due date or state aid payments may by law be withheld.

The accountant is also responsible for preparing any interim reports for use by the municipality's other fiscal officers. In addition, accountants should prepare monthly reports on spending versus appropriation and should notify department heads and selectmen of any potential overspending.

## 9.2 WHAT IS THE UMAS ACCOUNTING SYSTEM? WHAT CAN IT DO FOR A SMALL TOWN?

UMAS stands for "uniform municipal accounting system." The Department of Revenue has adapted national accounting standards for Massachusetts towns in a system called UMAS, which conforms substantially to the national Generally Accepted

- *What are the basic roles and responsibilities of the town accountant (town auditor)?*
- *What is the UMAS accounting system? What can it do for a small town?*
- *What are the key ingredients to becoming a successful town accountant?*
- *What is the purpose of a financial audit and how often should it be performed for the town?*

***DOR's Comprehensive Audit Procurement Guide is available through the Division of Local Services.***

Accounting Principles or GAAP. By using standard accounting principles, it is easier for individuals outside the community or state to read and understand a town's financial statements (and compare the statements of other municipalities). This is particularly important for banks and others who may be interested in lending money to a town through the purchase of bonds. An increasing number of Massachusetts municipal reporting requirements are now using the UMAS system. Perhaps the most important benefit to using the UMAS system is that it provides communities with better fiscal management information and therefore demonstrates greater accountability to taxpayers and the financial community.

Municipalities are encouraged to adopt UMAS but are not required to do so. Smaller towns that do not intend to issue bonds in the foreseeable future may feel this accounting system is too complex and detailed for their small budgets. However, the UMAS system can be adapted for use in even the smallest towns. For example, small towns could implement the system using the major headings but not the detail accounts.

### **9.3 WHAT ARE THE KEY INGREDIENTS TO BECOMING A SUCCESSFUL TOWN ACCOUNTANT?**

As with most positions in municipal government, annual training and professional development are key to becoming a successful accountant. Here again, the Department of Revenue and the Massachusetts Municipal Auditors' and Accountants' Association provide training opportunities each year.

Accountants who implement the recommendations made by a town's independent auditors are taking advantage of additional opportunities to strengthen the internal operating controls of their community's accounting system. Timely posting of transactions is also very important. The value of financial data is often influenced by its timeliness; timely monthly and annual reports are especially useful.

Finally, it is important to provide timely interim financial reports to the other financial officers in town. These reports facilitate communication among the various fiscal officers and provide a common basis for making policy decisions. At a minimum, monthly reports that compare revenues received and expenditures made against the budget are critical planning and control tools for the board of selectmen, finance committee and department heads. Narrative explanations accompanying the numbers in a report can dramatically increase the report's value. To complement the written reports, an accountant might consider making oral presentations several times a year to the selectmen and finance committee on the town's financial condition.

### **9.4 WHAT IS THE PURPOSE OF A FINANCIAL AUDIT AND HOW OFTEN SHOULD IT BE PERFORMED FOR THE TOWN?**

An audit is an examination of systems, procedures, programs and financial data. In fact, the audit is an extremely valuable management tool for evaluating the fiscal performance of towns. For more information on the specifics of conducting an audit, see *DOR's Audit Primer*.

The product of an audit, the audit report/opinion, is prepared by an independent auditor, and explains what procedures were performed, how they were performed, and what was found. Financial audits can be performed by any certified public accounting firm. A list of firms that have performed municipal audits can be obtained from the Massachusetts Society of Certified Public Accountants (MSCPA) or through the Commonwealth of Massachusetts Bureau of Accounts. For more information, see *DOR's Comprehensive Audit Procurement Guide*.

The audit also requires detailed financial statements, which must be produced by the community. An independent auditor is concerned with the accuracy of these financial statements, measured both in mathematical terms and in terms of conformance with

Generally Accepted Accounting Principles (GAAP). To determine the mathematical accuracy and GAAP conformity of a town's financial statements, the auditor conducts an examination using another set of national standards known as Generally Accepted Auditing Standards (GAAS).

Entities receiving federal assistance, either directly from the federal government or indirectly through a state agency, may be required to conduct what is known as a single audit to comply with the federal Single Audit Act of 1984. A single audit reviews a community's financial practices in view of the internal and administrative controls covering all federal financial assistance, as well as the central control systems of the community. These audits must be conducted in accordance with GAAS, GAAP and other federal requirements.

See DOR's *Financial Procedures Review* for more information.

A proposed amendment to the federal guidelines could change the audit requirements for federal assistance recipients. Please call the Division of Local Services for the latest guidelines.

***DOR has a Financial Procedures Review for self-evaluation of internal controls.***



# Role of Department Heads

# 10

## 10.1 WHAT ARE THE PRINCIPAL ROLES OF DEPARTMENT HEADS IN MUNICIPAL FINANCE?

The role of department heads in municipal finance depends largely on the size or percentage of the budget allocated to their particular service or function. A department head's role or mission is to provide the highest level of service from their department within the available resources of the overall municipal budget.

Department heads usually prepare their own budgets. Each departmental budget is created within the framework and guidelines set by the finance committee, selectmen, manager or some combination of the three. Department heads are usually very active in the budget review process, attempting to persuade those reviewing the budget of the value of their department's services and the reasonableness of their budget requests. Once the budget is approved, department heads have direct responsibility for ensuring that they spend within the allocated amount.

Department heads also play a major role in the capital planning process. A department head identifies special capital needs within his or her jurisdiction, and usually has the best information regarding use and acquisition of capital purchases. Also, because department heads have ultimate responsibility for the care and maintenance of capital items, they influence the useful life of those items.

Coordination among department heads and the major fiscal officers of the town is very important. For example, if a department plans to make an expensive acquisition, it is helpful if the department head coordinates efforts to pay for the item with the treasurer

so the latter can ensure there is enough cash to make the payments.

## 10.2 WHAT ARE THE KEY FINANCIAL MANAGEMENT INGREDIENTS TO BECOMING A SUCCESSFUL DEPARTMENT HEAD?

In preparing the annual budget request, department heads should adhere to any policy guidelines promulgated by the selectmen and the finance committee. If no guidelines exist, the department head should try to understand the perspective of those reviewing the budget so that his or her budget request will address known concerns. Any department that purchases a large dollar volume of goods and services should have purchasing controls and procedures. Such controls ensure that the level of money spent can be carefully monitored during the fiscal year.

In order to monitor spending activity, department heads must have access to — and use — interim financial reports. When requesting new or large items for appropriation, department heads should conduct research on the item's use and comparable costs so that questions posed by those reviewing the request can be answered without delay. Sometimes the quality of such research and its presentation can make the difference between a successful appropriation request and a failed one.

Department heads should meet periodically with the selectmen, finance committee and other fiscal officers to inform these teammates of major issues facing the department. Finally, they should participate in training programs for their own professional development and that of their staff. Funds for training should be included in departmental budgets.

- *What are the principal roles of department heads in municipal finance?*
- *What are the key financial management ingredients to becoming a successful department head?*
- *What is the special role of the school department in municipal finance? How has the school department's role in municipal finance changed as a result of the Education Reform Act of 1993?*
- *What are the benefits of joining or forming a regional school district?*

### 10.3 WHAT IS THE SPECIAL ROLE OF THE SCHOOL DEPARTMENT IN MUNICIPAL FINANCE? HOW HAS THE SCHOOL DEPARTMENT'S ROLE IN MUNICIPAL FINANCE CHANGED AS A RESULT OF THE EDUCATION REFORM ACT OF 1993?

Schools play a very important role in municipal finance for several reasons. First, the amount of state aid that a community receives is, to a great extent, determined by the town's pupil enrollment, as well as its taxation effort and wealth. The amount distributed or reimbursed in many Cherry Sheet programs (see Section 2.5 of this Guide for more information) is determined by formulas that take into account both a community's relative wealth and the characteristics of its pupil population.

School departments also have a special status within a municipality's budget. Under state law (M.G.L. Ch.71, Sec. 34), the legislative body of a town (town meeting) shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation. However, case law suggests that the school department's autonomy does not include certain line-items usually contained in their budget, namely transportation and capital costs. Town meeting can make non-binding recommendations to increase or decrease various line items.

In the late 1980's and early 1990's, when communities experienced local aid cuts and stagnant revenue growth, municipalities had the flexibility to make cuts in their school budget if necessary. All of that changed, however, with the passage of the Education Reform Act of 1993. Since FY94, each community now has an annual minimum school spending requirement that is based upon the base year's spending level. Since school budgets typically account for 50 percent of

a community's annual operating budget, these spending requirements have somewhat limited local budgetary flexibility. As a result, school departments gain some guaranteed stability in future school funding levels.

With this increase in stability, however, school departments have assumed a greater level of responsibility. For example, the Department of Education now relies upon the End of Year Report to calculate a community's minimum school spending requirement for the following fiscal year. Submitted by September 15 of a given year by the school committee and signed by the chief fiscal officer of the town, school committee chair and school superintendent, the End of Year Report contains a revenue and expenditure summary of the prior year (Schedule 1), and budget estimates for the current school year (Schedule 19). Accuracy in filling out these reports is essential to make sure a community is in compliance with its minimum spending requirements for both the previous year and the current year. Penalties for noncompliance range from mandated spending over and above the current year's requirement, to withholding portions of the current year's state aid from the municipality. These penalties affect the amount of available monies for municipal spending as a whole. For this reason among others, effective communication and cooperation between the school department and other town departments and boards is strongly recommended.

### 10.4 WHAT ARE THE BENEFITS OF JOINING OR FORMING A REGIONAL SCHOOL DISTRICT?

A town's membership in a regional school district also influences the town's budget and finances. Communities who join or form a regional school district may be able to provide better educational opportunities for their students at a lower cost than they could on their own. The state encourages municipalities to join or form regional school districts by giving such districts regional bonus aid. M.G.L. Ch. 71 Sec. 16D,

as amended by the Education Reform Act of 1993, provides for regions established after fiscal year 1993 to receive bonus aid equal to fifty dollars per foundation enrollment (number of students) in the first year, forty dollars per foundation enrollment in the second year, thirty dollars per foundation enrollment in the third year, twenty dollars per foundation enrollment in the fourth year and ten dollars per foundation enrollment in the fifth year. Regional bonus aid is not part of a region's net school spending requirement. It is important that smaller towns analyze the fiscal impact of joining a regional school district. The Department of Revenue and the Department of Education's Governance, Environmental and Support Services can assist in this analysis.

A regional school district is administered by a regional school district committee, composed of representatives from the member communities. This committee is responsible for preparing the annual budget for the district and determining the amounts that must be raised (through assessments) from each of the member communities. The Education Reform Act of 1993 has affected the way regional schools assess their members.

The statute imposes a minimum amount that each member must contribute to the region so that the region may meet its net school spending requirement. This amount, or minimum contribution, is calculated independently for each member based upon that member's base year contribution, taxation effort and relative wealth. The budget must be approved by town meeting votes in two-thirds of the participating communities before it becomes effective. M.G.L. Ch. 71, Sec. 16B specifies the procedure to be followed in the event that the budget is not approved by the requisite two-thirds of the district's members. If the budget is not approved by one of the communities in a two-member district, it must be reconsidered at a special district-wide meeting open to all registered voters. In districts with three or more member towns, rejection of the budget means the regional district committee must submit an amended budget for consideration to the member towns. If the amended budget is also disapproved, the committee is obligated to submit further amended budgets until a budget is approved by two-thirds of the district members.



# Role of Town Meeting

# 11

## 11.1 WHAT ARE THE BASIC ROLES AND RESPONSIBILITIES OF TOWN MEETING RELATIVE TO MUNICIPAL FINANCE?

Town meeting is the legislative body and appropriating authority of a town. As the legislative body, town meeting enacts by-laws and other measures to provide for the operation of municipal government and the administration of town affairs. For example, town meeting typically enacts personnel, zoning and building code by-laws and establishes various town select committees. As the appropriating authority, town meeting also approves the annual budget and — by approval of appropriations — authorizes specific expenditures. With the exception of the school operating budget, town meeting may vote a budget on a line-item basis, in which case each separate line item constitutes a separate appropriation. Alternatively, town meeting may vote appropriations more generally and thereby afford department heads a measure of flexibility in expending funds to operate their departments.

The budgets adopted by town meetings in Massachusetts are restricted by the Proposition 2½ limitations upon local property tax levies. So-called overrides of these tax limitations, which allow for additional taxing capacity, may only be approved by a general referendum vote of all town residents. The initial town budget is approved at annual town meeting prior to the July 1 commencement of the fiscal year. During the course of the fiscal year, special town meetings may be convened to refine the budget, transfer funds or address other municipal business. Town meetings are generally referred to as open town meetings if all residents may participate and vote on matters being considered by the meeting. By contrast, some

communities act at representative town meetings, where only elected town meeting representatives vote and decide matters being addressed.

Town meeting must also approve the issuance of debt. A two-thirds vote of the meeting is normally required for this purpose. Approval of town meeting is also necessary to establish a stabilization fund and appropriate monies into it. Likewise, a two-thirds vote of town meeting is required to make appropriations from the stabilization fund. Town meeting may also enact additional by-laws concerning the financial management and organization of the town. As the legislative body, town meeting ratifies major policies concerning the financial management of the municipality.

## 11.2 WHAT ARE THE POWERS AND RESPONSIBILITIES OF TOWN MEETING IN CONNECTION WITH PROPOSITION 2½ REFERENDA?

While town meeting has no role in deciding whether to hold a Proposition 2½ referendum, it may decide to appropriate money for certain purposes contingent upon the voters approving additional taxes for those purposes under Proposition 2½. These contingent appropriations may be made from the tax levy, available funds or borrowing under the following requirements found in M.G.L. Ch. 59 Sec. 21C(m):

- a. The statement of purpose in the override or exclusion question must reflect the same purpose as the contingent appropriation.
- b. The contingent appropriation is not effective until the override or exclusion question is approved. This means the funds cannot be spent until the question is approved.

- *What are the basic roles and responsibilities of town meeting relative to municipal finance?*
- *What are the powers and responsibilities of town meeting in connection with Proposition 2½ referenda?*
- *What can be done to make town meeting as effective as possible?*
- *Can town meeting appropriate money in a special article in excess of the amount stated in the article?*

c. The first election at which the override or exclusion question appears on the ballot must take place no later than 45 days after the contingent appropriation vote. If the selectmen do not call an election to be held within that time period, the contingent appropriation is null and void.

d. The selectmen may schedule other elections if the question is not approved at the first election, provided no election is held later than 90 days after the contingent appropriation vote. If the voters have not approved the question by the end of the 90-day period, the contingent appropriation is null and void.

e. If the contingent appropriation was made from the tax levy, the tax rate cannot be submitted to the Department of Revenue for approval until the override or exclusion question has been voted upon or until 45 days have passed and no election has been called, whichever occurs first.

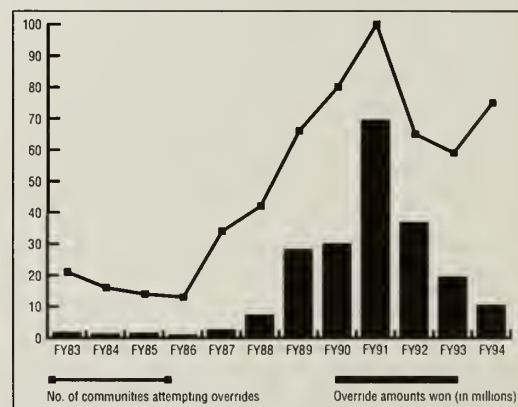
### 11.3 WHAT CAN BE DONE TO MAKE TOWN MEETING AS EFFECTIVE AS POSSIBLE?

Because town meetings convene infrequently and generally have a great deal of business and information to deliberate upon, it is important that issues be identified, data and information assembled, and analysis completed by municipal officers, committees and interested persons in advance of the meeting. Committee meetings, public hearings, cable television programs and newspaper articles offer convenient forums for the dissemination of important information on municipal matters. Computer technologies may also help to develop informational reports to assist town meeting. In any event, advance preparation of relevant information and its presentation to town meeting in a concise and meaningful manner will result in a more effective meeting.

### 11.4 CAN TOWN MEETING APPROPRIATE MONEY IN A SPECIAL ARTICLE IN EXCESS OF THE AMOUNT STATED IN THE ARTICLE?

This is a common concern for towns. Special articles often state a specific amount of money for a particular purpose (e.g., police car — \$20,000). Sometimes, town meeting wishes to appropriate more money than was identified in the article (often based upon additional information available by the date of town meeting).

The answer to the question depends upon the wording of the article. If the wording specifically enumerates a particular sum without qualifications or with terms such as "not to exceed," then the amount may not be exceeded. It may be reduced. If, however, the article contains language that qualifies the amount of money such as "\$20,000 or any other sum" or "\$20,000 or any amount therefor," then the amount may be exceeded.



Historical Proposition 2½ Overrides, FY83-FY94 Figure 4

# Information and References

# 12

## 12.1 WHERE CAN ADDITIONAL INFORMATION AND ASSISTANCE BE OBTAINED?

A Guide like this can only scratch the surface of a topic as comprehensive as municipal finance. However, some general definitions and directions have been provided and the reader can develop an understanding of most basic local finance issues. This manual answers some questions and may raise many more. The following is a list of organizations and publications that can assist in the search for more knowledge regarding municipal financial management. Many of these publications are updated frequently, and readers should check with the publisher to make sure they have the most recent version. DOR may be able to provide the name of an appropriate contact person for organizations without a permanent address.

## 12.2 ORGANIZATIONS

**Commonwealth of Massachusetts Department of Revenue (DOR), Division of Local Services, P. O. Box 9655, Boston, MA 02114-9655, Telephone (617) 626-2300; Worcester — (508) 792-7300; Springfield — (413) 784-1000**

This state agency exists to regulate and provide technical assistance to towns regarding matters of municipal finance. The Division of Local Services also provides direct technical assistance to individual communities and provides a number of training workshops and seminars. The Division's Municipal Data Bank provides free financial and demographic reports to local officials in printout and diskette formats.

**Commonwealth of Massachusetts Executive Office of Communities and Development (EOCD), 100 Cambridge Street, Boston, MA 02202, Telephone (617) 727-7180**

This state agency provides technical assistance to towns and sponsors a grant program to improve management capabilities.

**Commonwealth of Massachusetts Auditor's Office, Division of Local Mandates, 100 Nashua Street, Room 1010, Boston, MA 02114, Telephone (617) 727-0980 or (800) 462-COST**

This state agency monitors state legislation that might have a financial impact upon municipal government.

**Massachusetts Municipal Association (MMA), 60 Temple Place, Boston, MA 02111, Telephone (617) 426-7272**

This non-profit special interest group lobbies on behalf of municipalities and provides technical assistance to towns.

**Massachusetts Selectmen's Association, 60 Temple Place, Boston, MA 02111, Telephone (617) 426-7272**

This association is under the MMA umbrella and provides assistance to selectmen through training, meetings and publications.

**Association of Town Finance Committees, 60 Temple Place, Boston, MA 02111, Telephone (617) 426-7272**

This association is under the MMA umbrella and provides assistance to finance committee members through training, meetings and publications.

**Massachusetts Collectors and Treasurers Association, P. O. Box 954, Groton, MA 01450, Telephone (508) 448-6626**

This is the professional association for local treasurers and collectors. They conduct meetings throughout the year and have

- *Where can additional information and assistance be obtained?*
- *Organizations*
- *Publications*

an annual conference. The group also sponsors training programs for its members.

**Massachusetts Association of Assessing Officers, 243 Water Street, Quincy, MA 02169 Telephone (617) 376-1170**

An organization for individuals involved with assessment administration and appraisal. Its mission is to promote professionalism and encourage and provide education.

**Massachusetts Municipal Auditors' and Accountants' Association, Town Hall, 138 Main Street, Wenham, MA 01984 Telephone (508) 468-5521**

An organization that promotes professional accounting and financial management practices in Massachusetts.

**Massachusetts Governmental Finance Officers Association (MGFOA) Executive Department, Newton City Hall, 1000 Commonwealth Avenue, Newton, MA 02159 Telephone (617) 552-7085**

This is the state chapter of the national GFOA. It is open to any municipal finance officer, and many directors of finance belong to this organization. They conduct meetings throughout the year and hold an annual conference. The parent organization conducts workshops across the country regarding municipal financial management.

**National Association of Towns and Townships, 1522 K Street, NW Suite 600, Washington, DC 20005, Telephone (202) 737-5200**

This association focuses on rural communities and small towns and provides technical assistance, educational services and policy support. Its research and training arm is called the National Center for Small Communities.

**International City and County Management Association (ICCMA), 777 N. Capitol Street, NE, Washington, DC 20002-4201, Telephone (202) 289-4262**

This is the organization of professional administrators in local government. It has an extensive selection of publications and opportunities for training.

### 12.3 PUBLICATIONS

***Laws Relating to Municipal Finance and Taxation, DOR***

The Department of Revenue has compiled the most commonly referenced statutes for municipal finance into one book

***Assessor's Manual, DOR***

This is a detailed, comprehensive collection of the statutes and regulations regarding assessing operations. The manual includes forms and practical advice.

***Manual for a Collector of Taxes, DOR and Massachusetts Collectors and Treasurers Association***

This is a comprehensive description of the duties and responsibilities of tax collectors and includes relevant statutes and regulations.

***Treasurer's Manual, DOR and Massachusetts Collectors and Treasurers Association***

This manual is similar to the manual for collectors, but focuses on the position of treasurer.

***Informational Guideline Releases (IGRs), DOR***

The Department of Revenue publishes a series of releases regarding various topics of municipal finance law. Specific statutes or regulations are explained and sample forms are provided when appropriate.

***Massachusetts Finance Committee Handbook, Association of Town Finance Committees***

This manual explains in detail the role of the finance committee and is also a useful primer for municipal finance.

***Finance Committee Primer, Edward Dlott and Patrick Hyland, Association of Town Finance Committees***

A handbook and general primer regarding municipal financial issues written in a question and answer format.

*Handbook for Massachusetts Selectmen*, Jane Seagrave and Donald Levitan, Massachusetts Selectmen's Association. This manual describes the role of the selectmen and is a useful reference for local government management.

*Managing Small Towns*, Brent Wilkes, Massachusetts Municipal Association. A basic primer for small town management with a chapter regarding municipal finance written in question and answer format.

*Small Cities and Counties: A Guide to Managing Services*, James Banovetz, ed., ICCMA. A practical and comprehensive text for small town management that contains a chapter regarding municipal finance.

*Everything You Always Wanted to Know About Levy Limits ... But Were Afraid to Ask*, DOR. A detailed primer explaining Proposition 2½.

*Revenue and Expenditure Forecasting Workbook*, DOR

*Developing a Capital Improvements Program*, DOR

*Costing Municipal Services*, DOR

*Municipal Calendar*, DOR

*Audit Primer*, DOR

*Audit Procurement Guide*, DOR

*CAMA Decision Kit*, DOR

*Cherry Sheet Manual*, DOR

*Financial Procedure Review* (self-evaluation of internal controls), DOR

*Implementing an Enterprise Fund*, DOR

*Municipal Calendar*, DOR

*Municipal Data Bank* (electronic format or hard copy), DOR

*Revenue & Expenditure Forecasting Software*, DOR

**Note:**

This is a sampling of materials that are available for those who would like to pursue the topic of municipal finance.

